

Message Text

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ACTION COME-00

INFO OCT-01 EA-07 NEA-10 ISO-00 EB-08 TRSE-00 OMB-01 L-03

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FM AMEMBASSY KATHMANDU

TO SECSTATE WASHDC 7308

INFO AMEMBASSY SINGAPORE

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E.O. 11652 N/A

TAGS: ECRE, BENC, NP

SUBJ: KULEKHANI HYDEL PROJECT

REF: (A) SINGAPORE 137 (B) STATE 8125

PASS COMMERCE FOR MEPD

1. IT HAS TAKEN THE PROJECT CONSULTANT (NIPPON KOEI)
A FULL MONTH TO PREPARE AN ANALYSIS OF WHAT WENT WRONG
ON THE SUBJECT PROJECT BIDDING. IF FINAL CONCLUSION
IS THAT THE RECEIVED BIDS ARE UNREASONABLY HIGH, NEXT
STAGE WILL BE NEGOTIATIONS WITH BIDDERS TO REDUCE PRICE
TO AN ACCEPTABLE LEVEL. IF THE TWO BIDDERS BOTH REMAIN
INTRANSIGENT DURING THE NEXT MONTH, ALTERNATIVES WILL
BE WITHER TO RETENDER OR TO ATTEMPT NEGOTIATIONS WITH
SOMEONE ELSE. (IF CONSULTANT CONCLUDES THAT BIDS NOW
IN HAND ARE REALISTIC, GON WILL BE A REAL BIND, AS
AS THERE ARE PRESENTLY ABSOLUTELY NO PROSPECTS ON
THE HORIZON FOR SUPPLEMENTARY FINANCING; YET PROEJCT
IS CRUCIAL TO ECONOMIC DEVELOPMENT IN CENTRAL NEPAL.)

2. EMBASSY EC OFFICER HAS DISCUSSED SITUATION WITH
PROJECT CHIEF H.M. SHRESTHA, COVERING AMONG OTHER
THINGS, THE POINTS RAISED BY ACKERMAN VIA REF A.
SHRESTHA APPRECIATED CONTINUED M.K. INTEREST, BUT SAID
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THAT FURTHER DISCUSSIONS WOULD NOT BE APPROPRIATE UNTIL
DEGREE OF FLEXIBILITY OF THE PRESENT BIDDERS BECOMES
CLEAR. HE DID SAY, HOWEVER, THAT SHOULD IT BECOME
NECESSARY TO RETENDER, THE PACKAGE WOULD CERTAINLY BE
RESTRUCTURED SO AS TO AVOID THE BOYCOTT PROBLEM. HE
WAS INTERESTED IN THE REIMBURSABLE-COST CONTRACT CONCEPT,
PARTICULARLY THE POINT THAT IT ELIMINATES THE NEED FOR FAT

CONTINGENCY ALLOWANCES IN THE BID, BUT IT IS NOT CLEAR WHETHER THE WORLD BANK WOULD COUNTENANCE SUCH AN APPROACH. ON THE STATE OF THE ACCESS ROAD TO THE PROJECT SITE, HE SAID THAT THE ROADS DEPT. WAS PUSHING VERY HARD TO GET A TRUCKABLE ROAD INTO THE SITE BY BEGINNING OF THE RAINS THIS YEAR, BUT THAT AS A BACKUP THE PROJECT ITSELF IS ALSO CLEARING A PATCHWORK ALTERNATIVE ROAD WHICH SHOULD ENSURE AT LEAST BASIC ACCESS BY THEN.

3. IN REGARD TO ACERMAN'S PUZZLEMENT ON THE ORIGINAL PROJECT COST ESTIMATE (SINGAPORE 050), THE TOTAL RPT TOTAL PROJECT ESTIMATE WAS \$68 MILLION, OF THE CIVIL WORKS ELEMENT WAS \$27 MILLION (1974 PRICES) PLUS INFLATION AND PHYSICAL CONTINGENCY ALLOWANCE OF \$2.05 MILLION FOR A TOTAL OF \$47.5 MILLION. THE REMAINING \$20.5 MILLION IS FOR ELECTRO AND HYDRO-MECHANICAL EQUIPMENT, ENGINEERING SERVICES, SUB-STATION WORKS, ETC.

4. AT THIS POINT, EVERYTHING DEPENDS ON WHETHER THE JAPANESE OR KOREANS CAN BE BARGAINED DOWN. IF THEY CANNOT, WE ARE MILDLY OPTIMISTIC THAT PROSPECT OF GETTING THE JOB DONE FOR SOMETHING REASONABLY CLOSE TO THE ORIGINAL BUDGET WOULD OPEN THE DOOR TO GON ACCOMODATIONS WHICH COULD RESOLVE THE OTHER OBSTACLES WHICH HAVE PUT M-K OFF, INCLUDING THE BOYCOTT PROBLEM AND THE LOCAL INCOME TAX LEVY.
EAVES

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